

Message Text

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ORIGIN ARA-10

INFO OCT-01 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01

COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07 INT-05 L-03

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DRAFTED BY ARA/APU:JMSMITH:MMG

APPROVED BY ARA:WDROGERS

ARA:HARYAN

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FM SECSTATE WASHDC

TO AMEMBASSY BUENOS AIRES

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EO. 11652: N/A

TAGS: EINV, AR

SUBJECT:EXXON INVESTMENT CASE

1. MESSRS JESSUP, VAN BERG, AND LELLA OF EXXON CALLED APRIL 15 ON ASSISTANT SECRETARY ROGERS AND DEPUTY ASSISTANT SECRETARIES RYAN AND GRUNWALD TO DISCUSS THE PROSPECTS FOR A RESOLUTION OF THEIR INVESTMENT PROBLEMS IN ARGENTINA UNDER THE NEW GOVERNMENT. LELLA (EXXON'S ARGENTINE REPRESENTATIVE) SAID HE WAS "CAUTIOUSLY OPTIMISTIC" ABOUT THE FUTURE. HE SAID THE NEW ENERGY SECRETARY, GUILLERMO ZUBARAN, HAD BEEN IN THE ENERGY SECRETARIAT DURING THE ONGANIA GOVERNMENT-- THE HIGHPOINT OF EXXON'S 60-YEAR EXPERIENCE IN ARGENTINA.

2. IN A MEETING WITH ZUBARAN LAST WEEK, LELLA SAID, THEY HAD BOTH AGREED THAT A RETURN OF THE RETAIL OUTLETS TO EXXON WAS NOT POLITICALLY PRACTICAL. EXXON MUST CONSIDER ITS LONG TERM FUTURE IN ARGENTINA, AND THERE WAS NO POINT IN DOING ANYTHING NOW WHICH MIGHT BE UNDONE BY SOME FUTURE CIVILIAN GOVERNMENT. HOWEVER, ZUBARAN INDICATED THAT THE ENERGY SECRETARIAT INTENDED TO STRIP YPF OF ITS CONTROL

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OVER CRUDE OIL ALLOCATIONS, WHICH HAD REDUCED EXXON'S

REFINERY OPERATIONS TO 50 PER CENT OF ITS NORMAL LEVEL, AND OF ITS MONOPOLY OF IMPORTS AND TO DEPRIVE THE NATIONAL COAL COMPANY OF ITS MONOPOLY ON COAL AND COKE.

3. LELLA SAID ZUBARAN HAD INVITED EXXON TO GIVE ITS GENERAL VIEWS AS TO HOW THE OIL INDUSTRY SHOULD BE ORGANIZED IN ARGENTINA. AFTER GETTING THE VIEWS OF THE COMPANIES, THE ENERGY SECRETARIAT WOULD ISSUE GENERAL GUIDELINES--PROBABLY IN EARLY MAY. AT THAT TIME EXXON WOULD BEGIN NEGOTIATIONS WITH THE SECRETARIAT, WHICH SHOULD TAKE ABOUT TWO MONTHS TO COMPLETE. VAN BERG ADDED THAT SHELL'S ACTIONS HAD COMPLICATED THE SITUATION FOR EXXON. SHELL HAD ALREADY TURNED ITS ENTIRE MARKETING OPERATION OVER TO YPF, WHILE EXXON HAS ONLY TURNED OVER THE RETAIL OUTLETS AND HOPES TO RETAIN ITS WHOLESALE AND INDUSTRIAL BUSINESS. SHELL CAN BE EXPECTED TO DEMAND NO LESS FAVORABLE TREATMENT THAN EXXON RECEIVES, BUT THIS WOULD REQUIRE THE GOA TO RETURN TO SHELL SOME OF THE FACILITIES WHICH IT HAD PREVIOUSLY GIVEN UP.

4. MR. ROGERS SAID HE WAS PLEASED TO HEAR THAT THE PROSPECTS FOR A SETTLEMENT WERE IMPROVED. THE DEPARTMENT WANTED TO REMAIN IN CLOSE TOUCH WITH EXXON ON THIS MATTER AND WOULD HELP IN ANY WAY IT COULD. ROBINSON

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